

SEARS HOLDINGS

Q1 2016

Transformation Update & Financial Results

May 26, 2016



sears

kmart

SHOP YOUR WAY

Cautionary Statement

Regarding Forward-Looking Information

This presentation contains forward-looking statements, including statements about our transformation through our integrated retail strategy, the opportunities, some of which are quantified, presented by a framework for profit, our plans to redeploy and reconfigure our assets, our liquidity and ability to exercise financial flexibility as we meet our obligations and possible strategic transactions. Forward-looking statements, including these, are based on the current beliefs and expectations of our management and are subject to significant risks, assumptions and uncertainties that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. In addition, the framework for profit is not intended to provide guidance or predict results; instead, it is intended to provide dimensional context for the potential opportunities for increasing profitability if we are successful in achieving the potential results outlined, which is subject to significant assumptions, uncertainties and risks, including those identified in the presentation relating to maintaining, reversing or otherwise improving or achieving certain performance metrics, including member penetration, level of member engagement and retention rates. There can be no assurance that any of these efforts will be successful. The following additional factors, among others, could cause actual results to differ from those set forth in the forward-looking statements: our ability to offer merchandise and services that our customers want, including our proprietary brand products; our ability to successfully implement our integrated retail strategy to transform our business; our ability to successfully manage our inventory levels; initiatives to improve our liquidity through inventory management and other actions; competitive conditions in the retail and related services industries; worldwide economic conditions and business uncertainty, including the availability of consumer and commercial credit, changes in consumer confidence and spending, the impact of changing fuel prices, and changes in vendor relationships; vendors' lack of willingness to provide acceptable payment terms or otherwise restricting financing to purchase inventory or services; possible limits on our access to our domestic credit facility, which is subject to a borrowing base limitation and a springing fixed charge coverage ratio covenant, capital markets and other financing sources, including additional second lien financings, with respect to which we do not have commitments from lenders; our ability to successfully achieve our plans to generate liquidity through potential transactions or otherwise; our extensive reliance on computer systems, including legacy systems, to implement our integrated retail strategy, process transactions, summarize results, maintain customer, member, associate and Company data, and otherwise manage our business, which may be subject to disruptions or security breaches; the impact of seasonal buying patterns, including seasonal fluctuations due to weather conditions, which are difficult to forecast with certainty; our dependence on sources outside the United States for significant amounts of our merchandise; our reliance on third parties to provide us with services in connection with the administration of certain aspects of our business and the transfer of significant internal historical knowledge to such parties; impairment charges for goodwill and intangible assets or fixed-asset impairment for long-lived assets; our ability to attract, motivate and retain key executives and other associates; our ability to protect or preserve the image of our brands; the outcome of pending and/or future legal proceedings; and the timing and amount of required pension plan funding. While we believe that our forecasts and assumptions are reasonable, we caution that actual results may differ materially. We intend the forward-looking statements to speak only as of the time made and do not undertake to update or revise them as more information becomes available, except as required by law. The unaudited and estimated financial results for the first quarter of 2016 contained in this presentation reflect a number of complex and subjective judgments and estimates about the appropriateness of certain reported amounts and disclosures. Our financial statements for the first quarter of 2016 are not finalized. We are required to consider all available information through the finalization of our financial statements and their possible impact on our financial condition and results of operations for the period, including the impact of such information on the complex judgments and estimates referred to above. As a result, subsequent information or events may lead to material differences between the information about the results of operations described herein. You should consider this possibility in reviewing the financial information for the period described above.

Non-GAAP Financial Measures

In addition to our net loss attributable to Sears Holdings' shareholders determined in accordance with Generally Accepted Accounting Principles ("GAAP"), for purposes of evaluating operating performance, we use Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization ("Adjusted EBITDA"), Adjusted EBITDA excluding Seritage/JV rent as well as Adjusted Earnings per Share ("Adjusted EPS"). Adjusted EBITDA, excluding Seritage/JV rent, reflects the impact of the additional rent expense and assigned sub-tenant rental income as a result of the Seritage and JV transactions. The terms of our leases with Seritage and the JVs provide us with the ability to accelerate the transformation of our physical stores. We expect that our cash rent obligation will decrease significantly as space in these stores is recaptured. Adjusted EBITDA is computed as net loss attributable to Sears Holdings Corporation appearing on the Condensed Statements of Operations excluding income tax expense, interest expense, interest and investment loss, other income, depreciation and amortization and gain on sales of assets. In addition, it is adjusted to exclude certain significant items as set forth below. Our management uses Adjusted EBITDA to evaluate the operating performance of our businesses, as well as executive compensation metrics, for comparable periods. Adjusted EBITDA should not be used by investors or other third parties as the sole basis for formulating investment decisions as it excludes a number of important cash and non-cash recurring items.

While Adjusted EBITDA and Adjusted EBITDA excluding Seritage/JV rent are non-GAAP measurements, management believes that they are important indicators of ongoing operating performance, and useful to investors, because:

- EBITDA excludes the effects of financings and investing activities by eliminating the effects of interest and depreciation costs;
- Management considers gains/(losses) on the sale of assets to result from investing decisions rather than ongoing operations; and
- Other significant items, while periodically affecting our results, may vary significantly from period to period and have a disproportionate effect in a given period, which affects comparability of results, including impairment charges related to fixed assets, closed store and severance charges, pension expense, one-time credits from vendors, amortization of the deferred Seritage gain, expenses associated with legal matters, transaction costs associated with strategic initiatives and other expenses. We have adjusted our results for these items to make our statements more comparable and therefore more useful to investors as the items are not representative of our ongoing operations and reflect past investment decisions.

See appendix for reconciliations of the differences between the non-GAAP financial measures used in this presentation with the most comparable financial measures calculated in accordance with GAAP.

Agenda

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Opening Remarks

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Financial Results

Q1 2016



Adjusted EBITDA Results

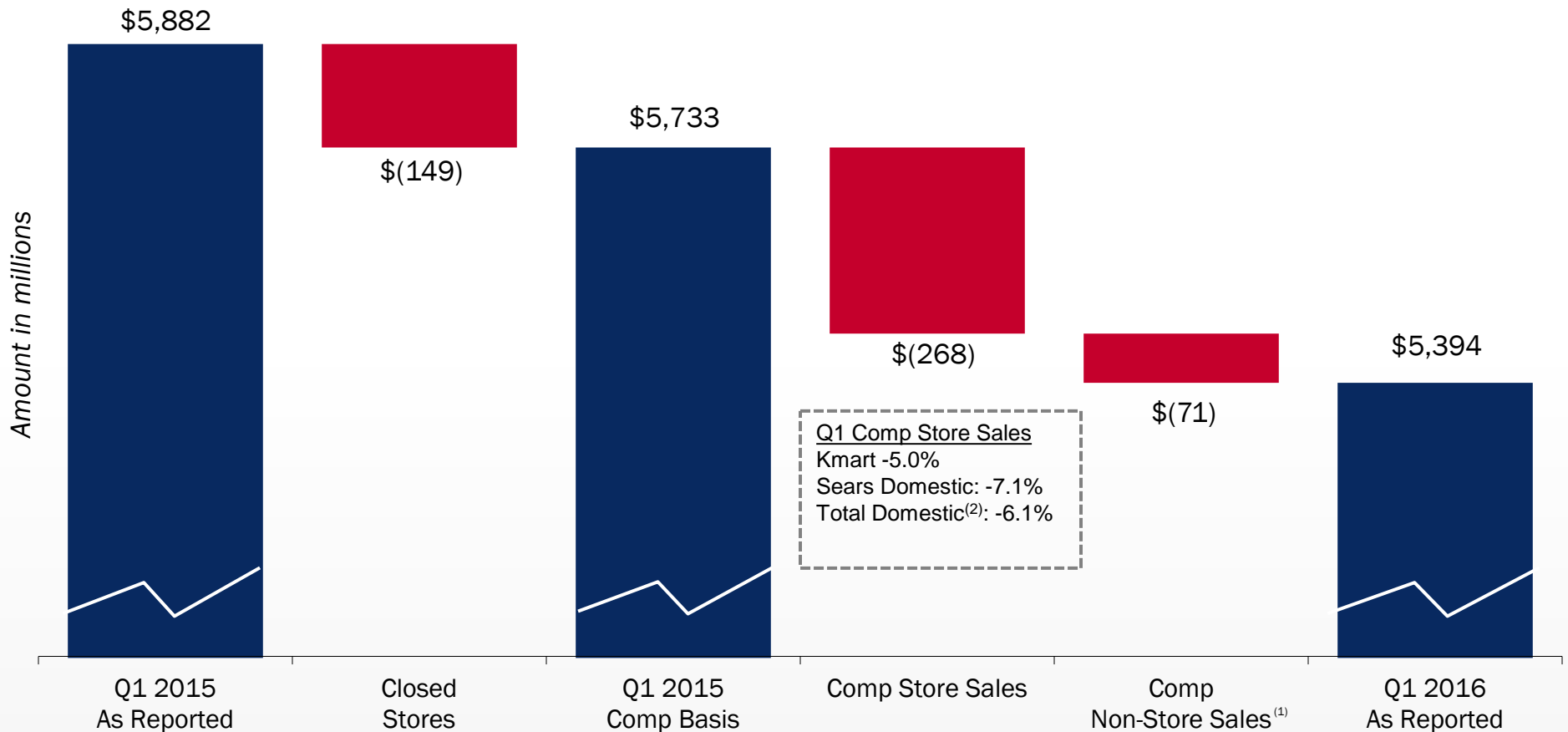
6 of the last 7 Quarters produced a positive Year-Over-Year Improvement in Adjusted EBITDA

<i>(\$'s in millions)</i>	Q3 2014	Q4 2014	Q1 2015	Q2 2015 ⁽¹⁾	Q3 2015 ⁽¹⁾	Q4 2015 ⁽¹⁾	Q1 2016 ⁽¹⁾
Current Year	\$(296)	\$125	\$(141)	\$(200)	\$(280)	\$(82)	\$(127)
Prior Year	\$(310)	\$(92)	\$(178)	\$(298)	\$(296)	\$125	\$(141)
Year-Over-Year Change	\$14	\$217	\$37	\$98	\$16	\$(207)	\$14

(1) Adjusted EBITDA of \$(127) for Q1 2016, \$(82) for Q4 2015, \$(280) million for Q3 2015 and \$(200) million for Q2 2015 is shown before additional rent expense of \$54 million for Q1 2016, \$55 million in Q4 2015, \$52 million for Q3 2015 and \$26 million for Q2 2015 and includes the loss of third party rent income resulting from (i) the recent transaction with Seritage Growth Properties ("Seritage") and (ii) joint ventures entered into with General Growth Properties, Inc., Simon Property Group Inc. and The Macerich Company. Due to the structure of the leases, we expect that our cash rent obligations to Seritage and the joint venture partners will decline materially, over time, as space in these stores is recaptured. While the rent paid to Seritage and the joint venture partners is a real cash expense, we exclude it here to provide a more consistent and comparable view of our operating performance. Adjusted EBITDA in prior quarters is not impacted by the transaction with Seritage Growth Properties ("Seritage") or the joint ventures.

Year-Over-Year Revenue Changes

Revenue declined 5.9% on a comparable basis, including the impact of both store and non-store sales⁽¹⁾

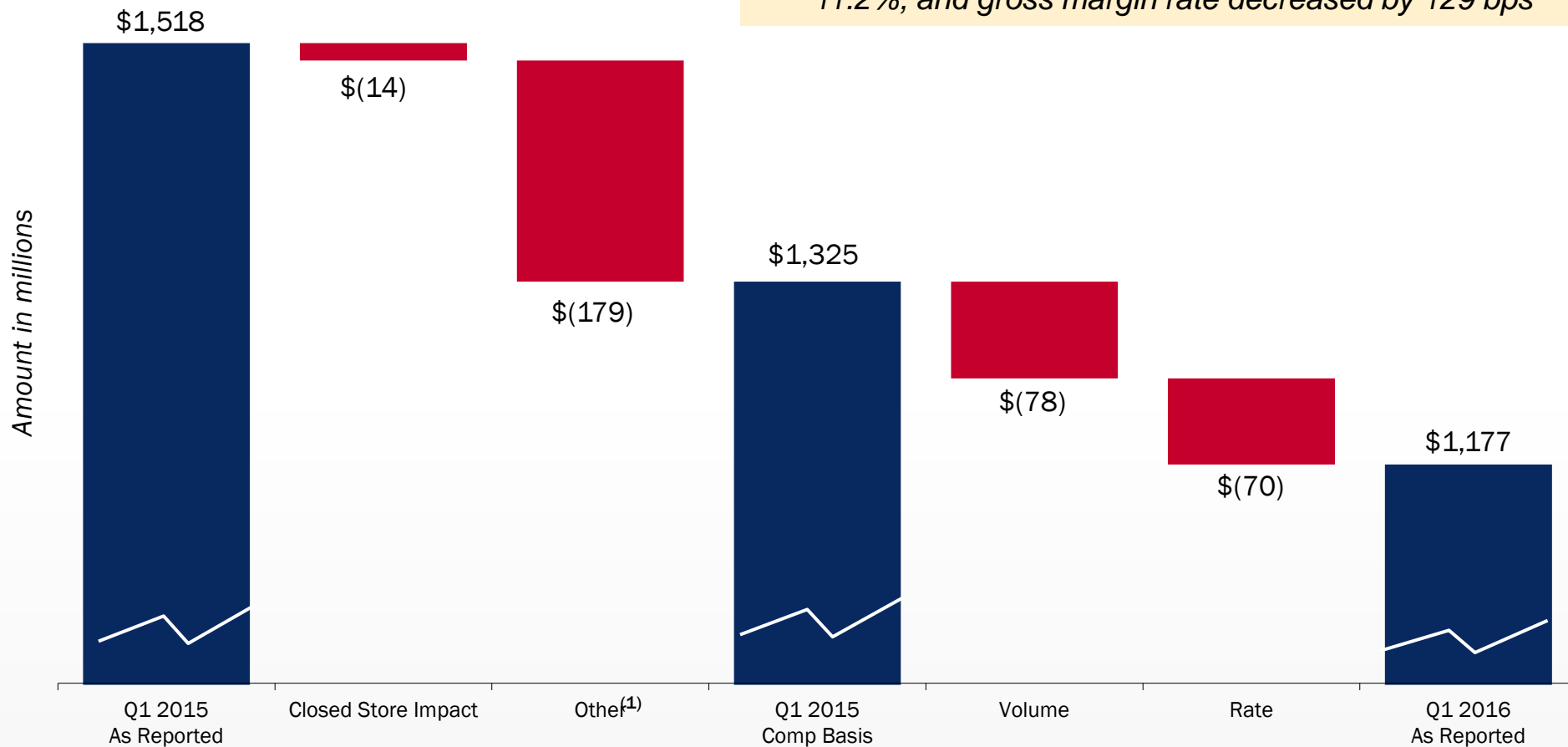


(1) Comp Non-Store Sales represents revenue from ongoing business operations not directly associated with a store, as well as revenue from our ongoing relationships with Sears Hometown and Outlet Stores, Inc. and Lands' End. Note, the majority of the Comp Non-Store Sales decline is attributed to reduced revenue from Sears Hometown and Outlet Stores, Inc.

(2) Comparable store sales amounts include sales for all stores operating for a period of at least 12 full months (including remodeled and expanded stores, but excluding store relocations and stores that have undergone format changes), as well as sales from sears.com and kmart.com shipped directly to customers and have been adjusted for the change in the unshipped sales reserves recorded at the end of each reporting period.

Year-Over-Year Gross Margin Changes

On a comparable basis, gross margin decreased \$148M, or 11.2%, and gross margin rate decreased by 129 bps

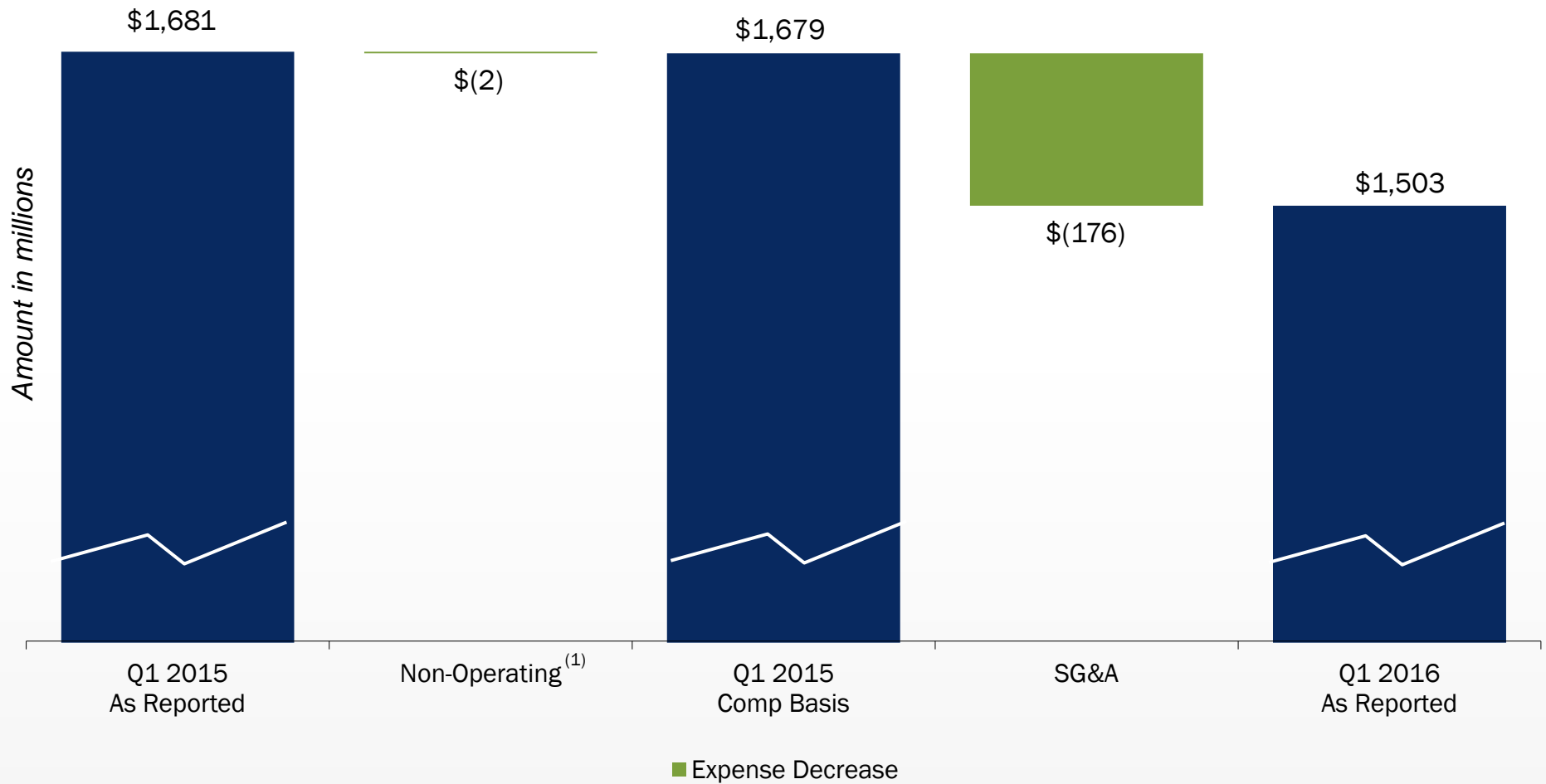


\$70M Unfavorable Gross Margin rate impact attributed to a decrease in product margin primarily due to fall/winter inventory as well as an increase in SYW points expense which is partially funded by reductions in traditional advertising spend recorded in SG&A

(1) Primarily consists of non-cash reserves, additional Seritage/JV rent expense in Q1 2016 and one-time credits from vendors in Q1 2015.

Year-Over-Year Expense Changes

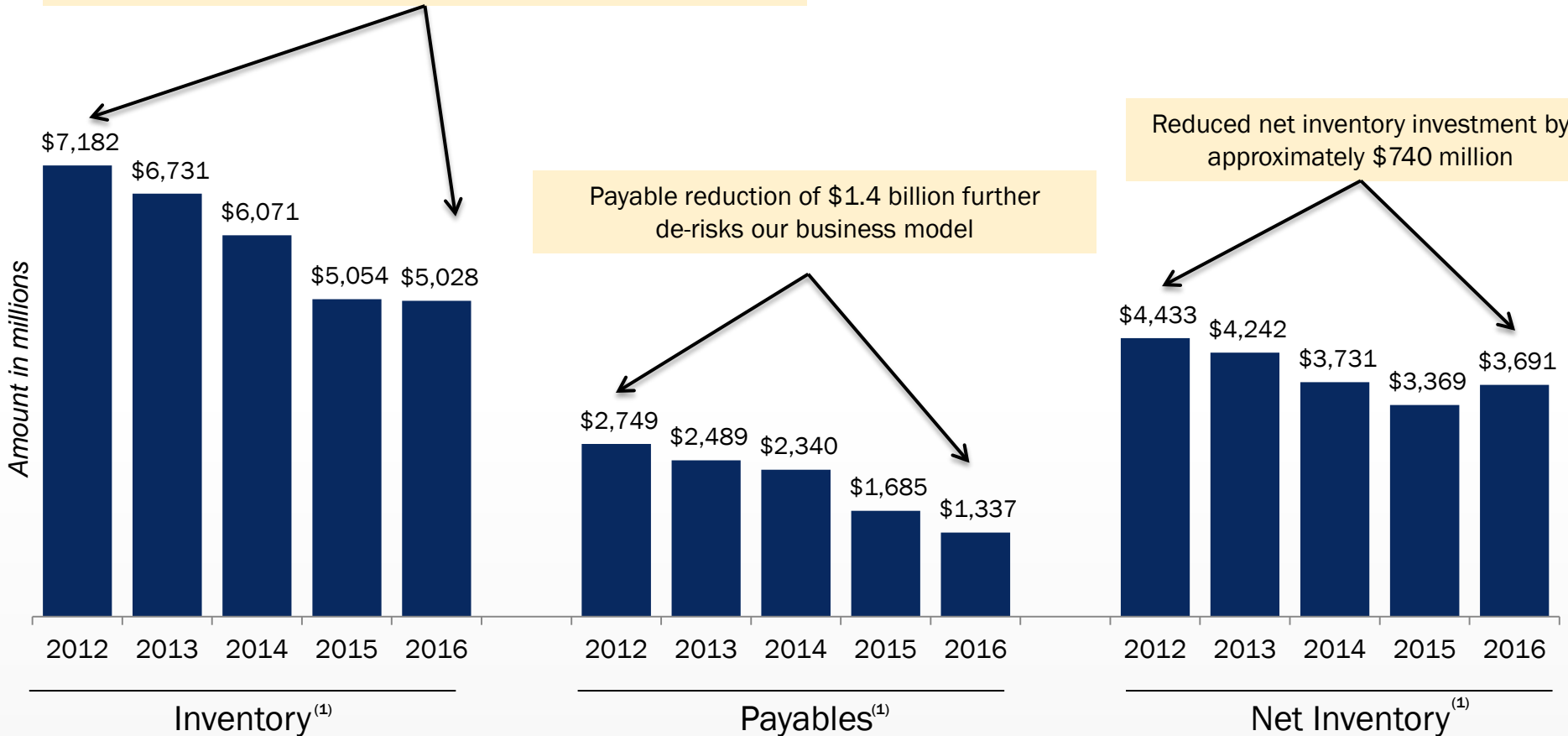
Reduced SG&A expenses on a comparable basis by \$176M year-over-year and \$1.6B since 2012



(1) Consists of closed store reserves, pension expense, legal expenses, transaction costs and other expenses.

First Quarter Net Inventory

~\$2.2 billion inventory reduction over the last five years due to inventory productivity improvements & closed stores.



By reducing our net inventory investment and our payables, we have decreased the level of vendor support needed to run our business, de-risking our business model in a way that benefits us and our vendor-partners

(1) Adjusted for Lands' End and Sears Hometown and Outlet.

Financial Position & Current Liquidity Assets

We have substantial resources to fund our transformation while continuing to invest in our best stores, our best member, and our best categories

<i>Amounts in millions</i>	Q1 2016		ABL Usage		
	\$		<i>(millions)</i>	<u>Q1 2016</u>	<u>Q1 2015</u>
Cash	\$	286	ABL Borrowings	\$ 244	\$ 410
Availability on Credit Facility ¹		265	Letters of Credit	652	657
Availability on Short-Term Borrowing Basket ^{2,3}		114	Total Usage	896	1,067
Total Liquid Availability	\$	665	SHC's ABL usage is down approximately 16% vs. Q1 2015. The Q1 2016 usage is only 45% of the \$1.971 billion ABL facility		
Equity in Inventory		3,691			
Total Liquidity & Liquid Assets	\$	4,356			

SHC Liquidity as of Q1 2016

- Total Liquidity and Liquid assets in Q1 2016 is approximately \$4.4 billion, comprised of:
- \$286 million in cash
- \$265 million of availability under SHC's \$1.971 billion credit facility, which is in place through July 2020
- \$114 million of short-term debt capacity
- \$3.691 billion of equity in inventory, which is turned into cash as the company sells its inventory

(1) Reflects effect of springing fixed charge coverage ratio covenant and borrowing base level

(2) The \$750 million short-term debt basket less \$500 million real estate loan less \$136 million of Commercial Paper outstanding

(3) The \$750 million short-term debt basket provides the ability to borrow with maturities inside of the ABL Maturity of July 2020. The short-term debt basket can be paid down and re-borrowed as desired.

ABL Credit Facility Provides Flexibility in Meeting our Seasonal Working Capital Needs

As we move through the year, we expect to increase our capacity to borrow by approximately \$600 million due to growth in the borrowing base and changes to the FCCR⁽¹⁾



ABL Availability

- The availability under SHC's ABL revolver is seasonal in nature, responding to builds and draws of inventory.
- As the charts above demonstrates, availability can be increased by:
 - 1) Increases in the borrowing base which is driven by the inventory build for the holiday season; and
 - 2) Credit agreement prescribed improvements in the FCCR "holdback" starting in September, 2016.
- These two factors are expected to generate approximately \$600 million of incremental availability by the Holiday season.

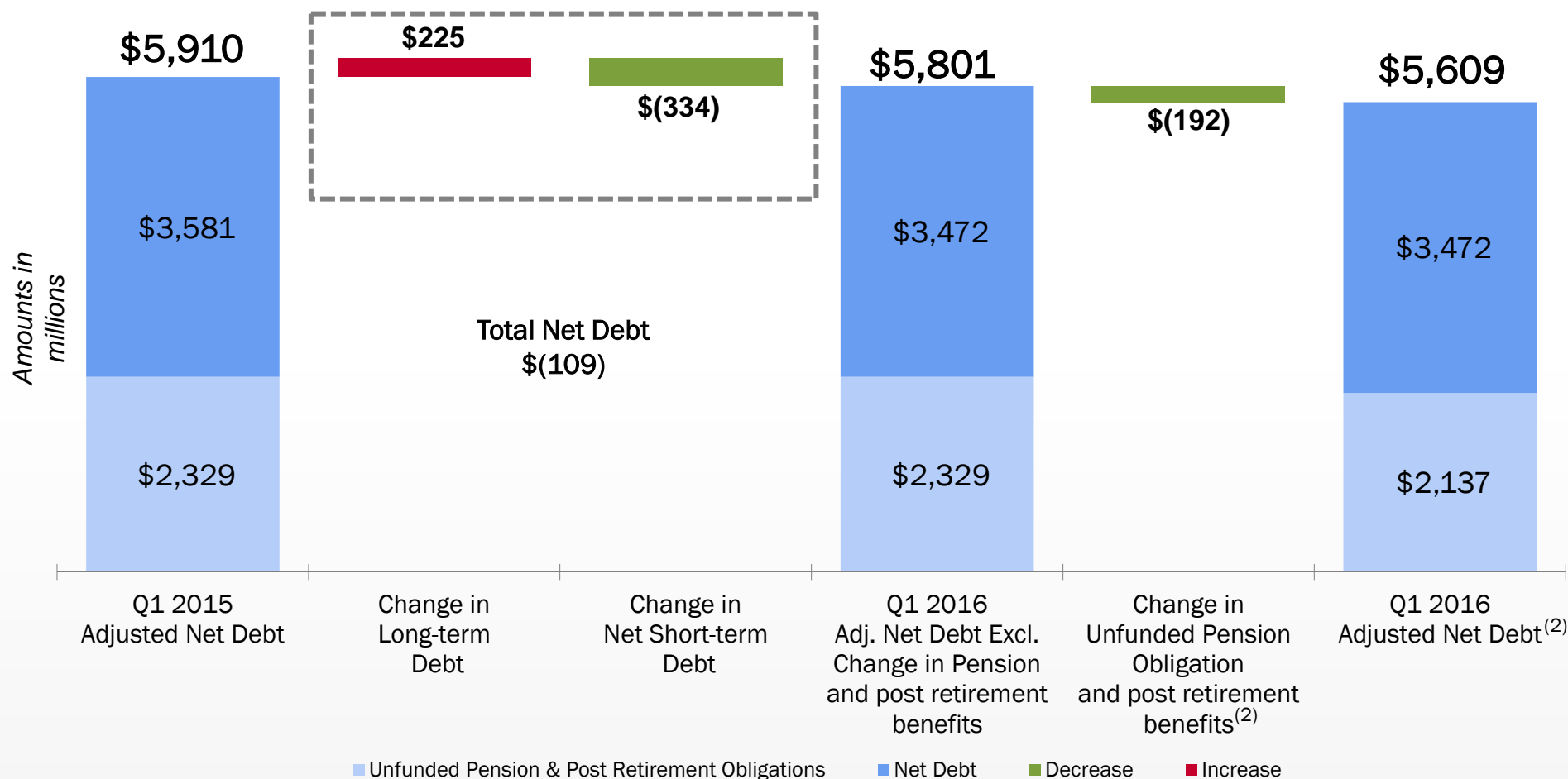
(1) FCCR is defined as the Fixed Charge Coverage Ratio

(2) Expected growth due to anticipated inventory and borrowing base growth during the year as we build for the holiday season

(3) Change in Fixed Charge Coverage Ratio "holdback", which was \$413 million in Q1, dropping to \$200 million in September, resulting in a net of \$213 million

Adjusted Net Debt Position^{1,2}

Reduced Adjusted Net Debt By ~\$300M since Q1 2015

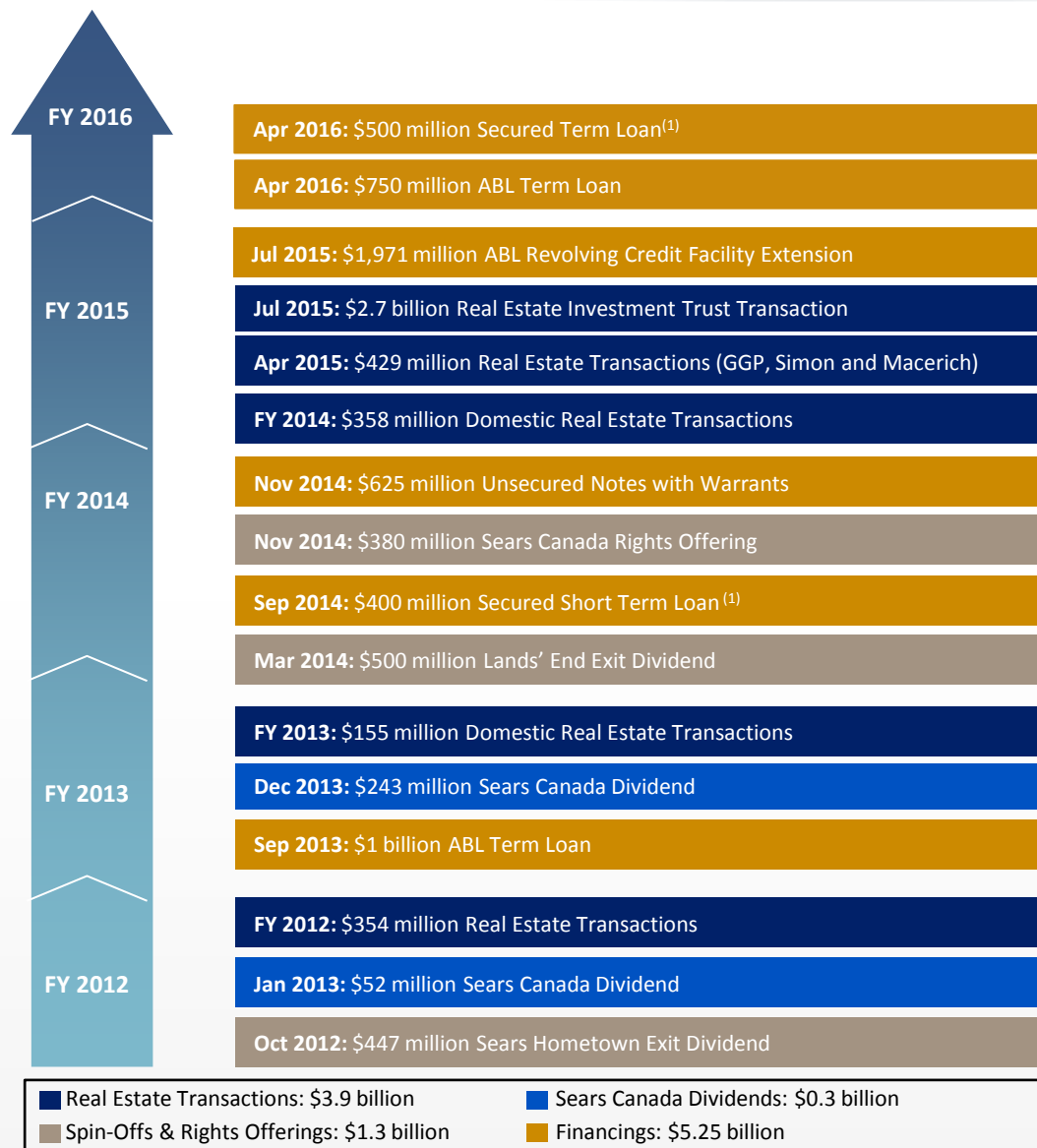


(1) Defined as total net debt plus unfunded pension and post retirement benefits obligation.
 (2) Adjusted net debt represents total debt, including pension and postretirement benefits, net of cash on hand.

Funding Our Transformation



Proven Ability to Generate Liquidity as We Have Executed on our Asset Reconfiguration



As outlined in the chart to the left, the Company has a strong track record of executing asset monetizations and other financings to support its liquidity needs.

From 2012 through Q1 2016, Holdings raised approximately \$8.9 billion in liquidity and extended the ABL Revolving credit facility by \$1.971 billion.

(1) Secured by certain real properties representing 2% of our total number of properties.

Funding Our Transformation

Financial Capacity

SHC has significant financial flexibility

(\$'s in millions)	Old Facility		New Facility	
ABL Commitments	\$	3,275	\$	1,971
FILO Capacity ⁽¹⁾		-		500
Accordion Capacity ⁽¹⁾		-		1,000
2L Note Capacity ^(1,2)		760		1,696
Sub-Total Inventory Based Financing Capacity	\$	4,035	\$	5,167
Sub-Total Short Term Debt Basket⁽³⁾	\$	500	\$	750
Total Inventory and ST Financing Capacity	\$	4,535	\$	5,917

SHC Financial Capacity

- The ABL extension, completed in July 2015 increased the ABL capacity by \$196 million and the overall financing capacity increased by \$1.3 billion, inclusive of the Accordion and 2L notes.
 - \$1.971B of revolving credit facility through July 2020 secured by domestic inventory, credit card & pharmacy receivables
- Credit facility provides us with flexibility to raise additional capital with terms including:
 - \$1.0B Accordion – Reduced to \$250M after closing the \$750M Term Loan in Q1 2016;
 - \$500M First-In-Last-Out (“FILO”) capacity, subject to the borrowing base requirements; and
 - \$2.0B 2nd Lien Debt Capacity – \$304M outstanding at the end of Q1 2016.
- The uncommitted short-term debt capacity can be deployed across short-term (up to \$750 million, of which \$500M is being used for the real estate loan, and \$136 million was used for Commercial Paper)⁽³⁾.

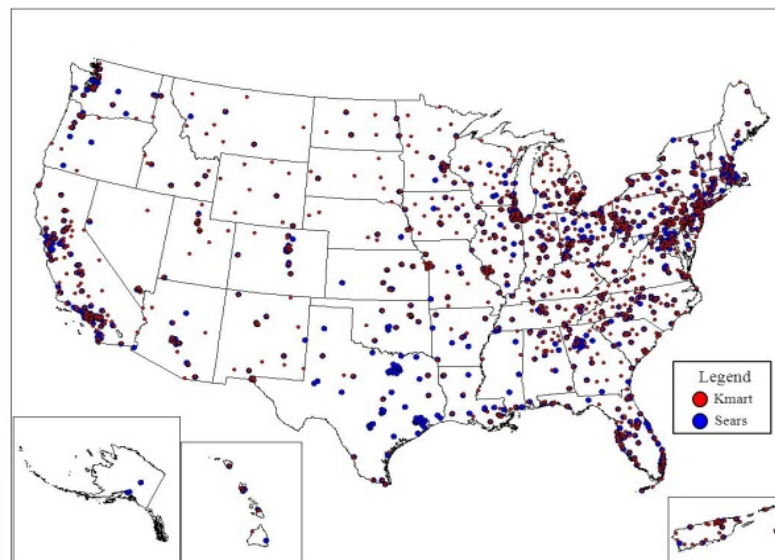
(1) Subject to Borrowing Base requirements.

(2) After giving effect to the 2L Notes tender offer.

(3) Short-term debt basket governs our ability to issue debt maturing before July 2020. This uncommitted short-term debt capacity has been used in the past year for a variety of purposes including real estate and commercial paper.

Substantial amount of owned real estate with a significant U.S. presence in top locations

<u>Summary of Stores</u>			
	<u>Sears</u>	<u>Kmart</u>	<u>Total</u>
Total Owned	322	96	418
Leased - Non-Seritage REIT	234	718	952
Leased - Seritage REIT ⁽¹⁾	170	82	252
Total Leased	404	800	1,204
	726	896	1,622

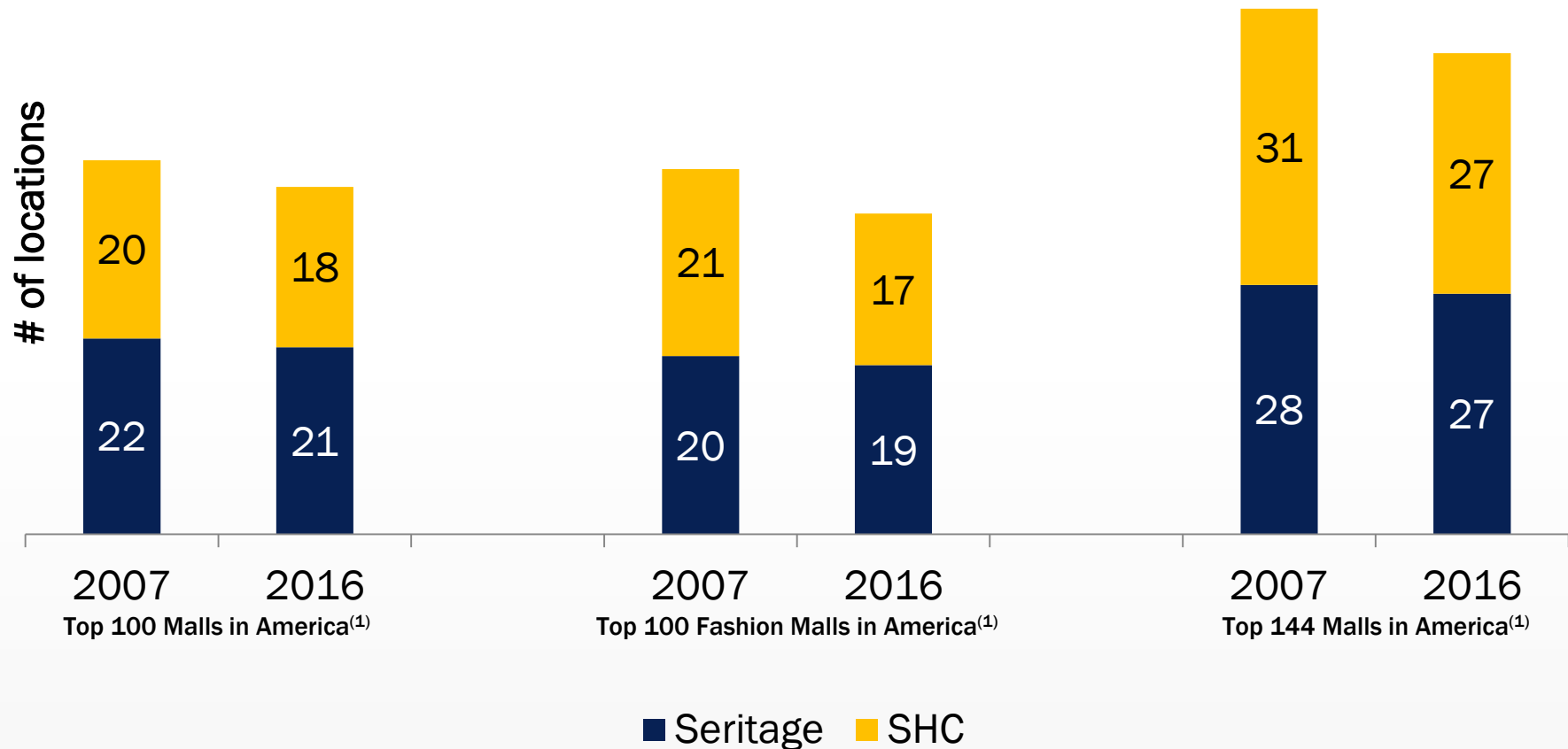


In addition, SHC owns 28 distribution centers and a 200 acre Home Office

Of properties that are leased, many are under long-term leases below market rental rates

(1) Current summary of stores as of Q1 2016, and includes the 252 stores that were part of the REIT transaction completed in Q2 2015. Note: Total stores in the REIT transaction was 266; however, 11 of the properties were closed stores that SHC did not lease back and 3 were recaptured in Q1 2016.

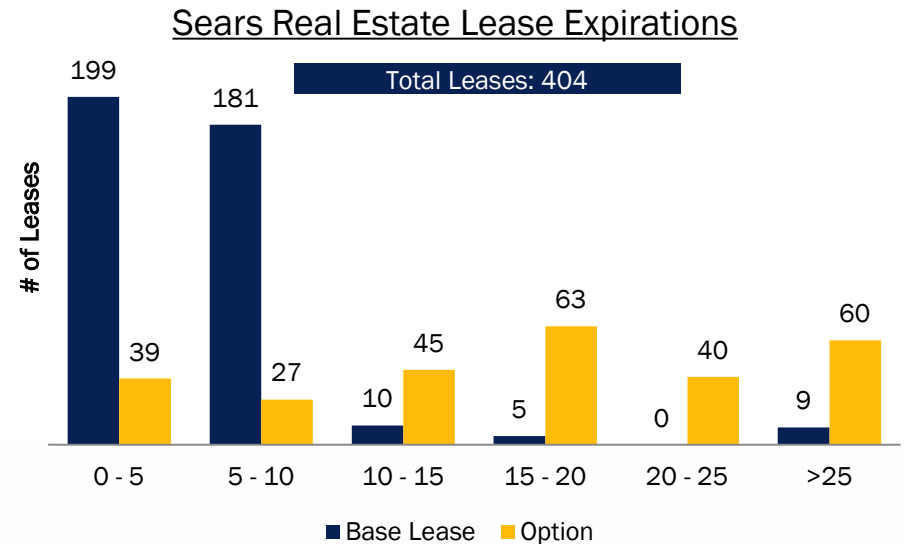
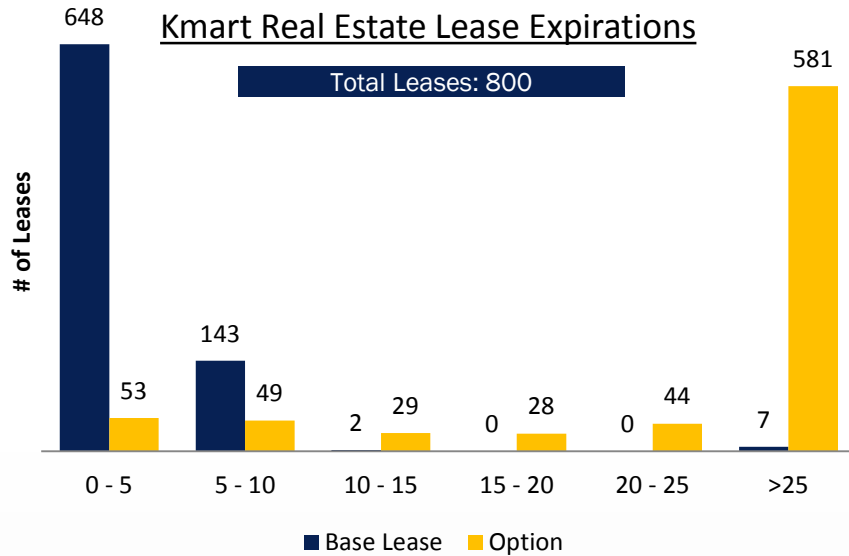
Retail Presence in Top Malls Remains Strong



(1) Source: Goldman Sachs and Morgan Stanley October 23, 2015 report of top 100 Malls.

Leases Represent a Significant Corporate Asset

Lease expiration terms provide SHC with significant real estate option value with minimal commitment



Sears' leased Real Estate portfolio contains 1,204 leases ⁽¹⁾

- Majority of leased stores have expirations of less than five years
 - Kmart: 81%
 - Sears Full-line stores: 50%
- SHC has options to renew leases on many stores for more than 25 years
 - Kmart: 73%
 - Sears Full-line stores: 15%

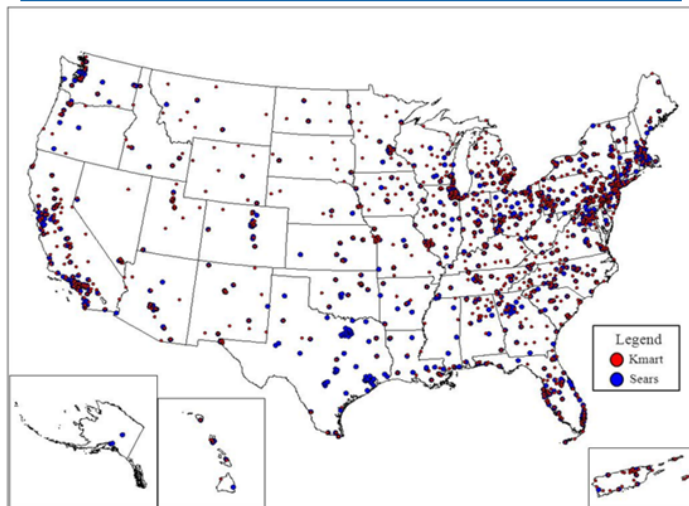
(1) The 1,204 site leased real estate portfolio includes the 252 properties that are leased from Seritage. Total stores in the REIT transaction was 266; however, 11 of the properties were closed stores that SHC did not lease back and 3 were recaptured in Q1 2016.

Progress On Our Transformation



Our Transformation Is Underway

Traditional Store Network Model



- Product Centric
- Transactions with Customers
- Store Focus
- Mass Marketing
- Uniform Pricing
- High Fixed Cost Infrastructure
- Asset Intensive



Member-Centric Integrated Retail Model



- Member Centric
- Relationships with Members
- Integrated Retail Alternatives
- Personalization
- Dynamic Pricing
- Greater Proportion of Costs Variable
- Less Asset Intensive

We Are Focused On The Future

As we transform our business we are focused on three areas:



Our Best Members

- Increasing Engagement
- Strengthening Relationships
- Growth Through Retention
- Approximately 50% of Our Marketing Communications are Personalized



Our Best Stores

- Optimizing Store Network
- Integrated Retail Investments
- Continues Productivity Improvement



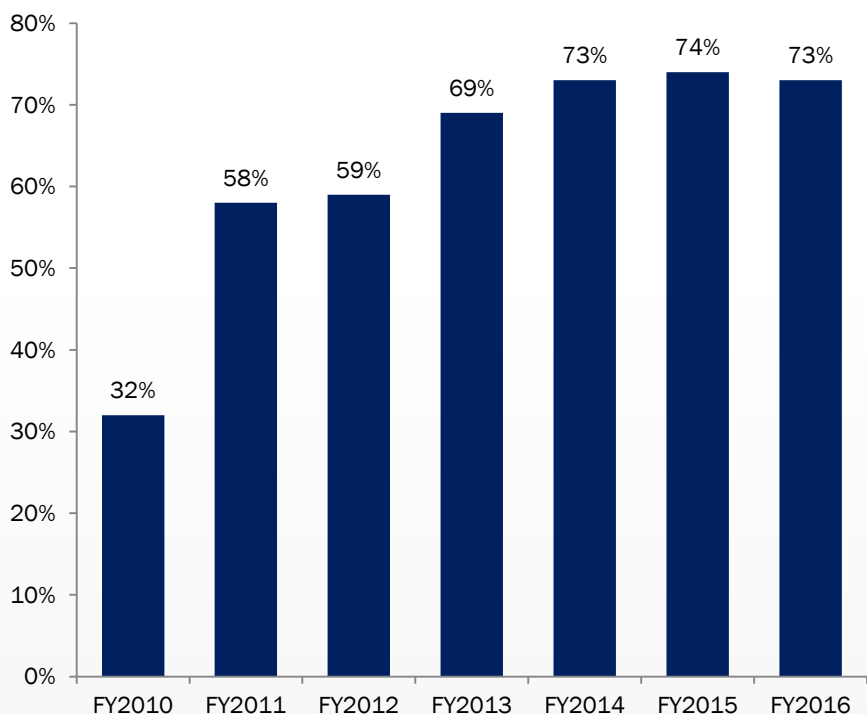
Our Best Categories

- Focus on Leading Categories
- Continued Focus on Proprietary Brands
- Transforming Important but Underperforming Categories

Shop Your Way Member Engagement

Shop Your Way Is Integral To Member Engagement And Growth

Substantial Growth in Member Sales Penetration



Shop Your Way Key Metrics

- ✓ **Critical engagement metrics showing continued growth:**
 - Redemption sales as a % of Member Sales: 25% increase vs. LY
 - Active e-mail population has increased 13.4% vs. LY
 - Points Issued and Points Redeemed are both up YOY 74% and 70% respectively
- ✓ **Going forward, focus is on increasing engagement with members**
 - The Shop Your Way platform and network has achieved scale and the focus is now on member frequency

As we reach these levels of member penetration proving the scale of our platform, our primary focus is on increasing frequency of usage and overall member engagement

Optimizing Store Network and Space

As we leverage Shop Your Way and Integrated Retail, we will continue to right-size, redeploy and highlight the value of our assets, including our substantial real estate portfolio

Sears & Forever 21 on Shared Footprint in Costa Mesa, California⁽¹⁾



- We are transforming our asset base to better serve our members
- In many cases, our stores are larger than needed for today's technology-equipped consumer
- Partnering with other retailers allows us to improve productivity and profitability by:
 - Rationalizing our retail store footprint
 - Generating substantial leasing income
- On October 20, 2014, we announced lease agreements with Primark, a leading fashion retailer in Europe
 - Sears will continue to have a significant presence in 6 locations with a streamlined store format of up to 100,000 selling square feet
- In July of 2015, we formed a newly independent publicly traded REIT, Seritage Growth Properties:
 - Lease terms enable great flexibility in managing SHC real estate productivity

Sears & Whole Foods on Shared Footprint in Clearwater, Florida



(1) The Costa Mesa store was not included in the Seritage REIT transaction.

Seritage REIT Enhanced SHC Strategic Flexibility

Unlocking a portion of the Real Estate Portfolio enabled SHC to accelerate investment in its transformation

- Transformation to an asset-light, member-centric retailer
- Additional capital to invest in the future of our membership and integrated retail platforms
- Operate in smaller more productive stores
- Continue to manage the day-to-day operations of the stores without affecting the shopping member experience

REIT structure has unique flexibility for SHC as a tenant

- **Recapture Right**
 - REIT may recapture up to 50% of the space in up to 50 stores annually
- **Buyout Right**
 - Seritage may acquire the remaining 50% of the space not already entitled to be recaptured in 21 stores by making a lease termination payment (*greater of* Amount specified in Master lease & 10x EBITDA attributable to this space)
 - During the first quarter of 2016, Holdings closed three stores pursuant to recapture notices from Seritage.
- **SHC Exit Right**
 - After the first year, SHC may exit unprofitable leases, up to 20% of the total rent obligations per year, in exchange for 1 year's rent payment
- **Between the Buyout Right held by Seritage, and the Exit Right held by SHC, it is contractually possible for SHC to have no rent obligation 6 years from the date of the initial lease**
 - 50% of the rents can be recaptured by Seritage
 - All of the rents can be exited by SHC, if hypothetically, all of the stores were unprofitable

Focus on Leading Categories

Sears Holdings is focused on growing our best & most important categories to meet members' needs

Home Appliances



- Reinforce our position as a leading appliance retailer in the U.S.
- Continue to launch innovative products with exclusive features under Kenmore
- Continued optimization of product assortment to fulfill all member needs
- Optimize marketing spend to drive increased channel efficiency

Home Services



- Reinforcing our position as #1 national service provider
- Focused on improving service levels and response times
- Increased capacity of tech network to meet seasonal needs
- Profitable Protection Agreement warranty business

Apparel



- Increased focus on building deeper relationships with our best members in order to drive increased profitability for SHC
- Simplified product strategy with increased focus on basic categories
- Continued focus on bringing product design in-house to elevate style and quality
- Expanded direct global sourcing capabilities to increase profits and shorten lead times

Closing Remarks

Operational Initiatives for 2016 focused on generating Positive Adjusted EBITDA

- Continue to evaluate and optimize cost structure, focusing on:
 - Optimizing store-level marketing expenditures and overall staffing levels
 - Taking action to reduce fixed costs
 - Improve inventory management and gross margin realization
- Continue aggressive expense reductions by taking actions to further reduce costs by between \$550 million and \$650 million in 2016
- Targeting at least \$300 million of other asset sales during the first half of fiscal year 2016
- Continue to consider overall capital structure and liquidity position with the goal of creating long-term value and funding transformation

Appendix



Sears Holdings Consolidated Results

Amounts in millions, except per share amounts

	First Quarter	
	2016	2015
Revenues	\$ 5,394	\$ 5,882
Net loss attributable to Holdings' shareholders	\$ (471)	\$ (303)
<i>EPS</i>	\$ (4.41)	\$ (2.85)
Adjusted net loss	\$ (199)	\$ (213)
<i>Adjusted EPS</i>	\$ (1.86)	\$ (2.00)

Significant Items

Amounts in millions

	First Quarter	
	2016	2015
Net loss as reported	\$ (471)	\$ (303)
Pension expense	45	36
Closed store/store impairments/severance	62	24
Gains on Seritage recaptures	(16)	—
Gain on sales of assets	—	(60)
Mark-to-market adjustments	4	12
Amortization of deferred Seritage gain	(14)	—
Other ⁽¹⁾	5	(46)
Tax matters	186	124
Adjusted net loss	<u>\$ (199)</u>	<u>\$ (213)</u>

⁽¹⁾ First Quarter 2016 consisted of expenses associated with legal matters, while First Quarter 2015 consisted of one-time credits from vendors, expenses associated with legal matters, transaction costs associated with strategic initiatives and other expenses.

Consolidated Adjusted EBITDA

Amounts in millions

	First Quarter	
	2016	2015
Net loss attributable to Holdings per statement of operations	\$ (471)	\$ (303)
Income tax expense	15	18
Interest expense	85	90
Interest and investment loss	4	18
Other income	(1)	(1)
Operating loss	(368)	(178)
Depreciation and amortization	95	122
Gain on sales of assets	(61)	(107)
Before excluded items	(334)	(163)
Closed store reserve and severance	87	39
Pension expense	72	57
Other ⁽¹⁾	8	(74)
Amortization of deferred Seritage gain	(22)	—
Impairment charges	8	—
Adjusted EBITDA	<u>\$ (181)</u>	<u>\$ (141)</u>
Seritage/JV Rent	54	—
Adjusted EBITDA excluding Seritage/JV rent	<u>\$ (127)</u>	<u>\$ (141)</u>

⁽¹⁾ First Quarter 2016 consisted of expenses associated with legal matters, while First Quarter 2015 consisted of one-time credits from vendors, expenses associated with legal matters, transaction costs associated with strategic initiatives and other expenses.

Adjusted EBITDA Results

Amounts in millions

	First Quarter	
	<u>2016</u>	<u>2015</u>
Revenues	\$ 5,394	\$ 5,882
Margin	1,215	1,431
<i>Margin rate</i>	22.5%	24.3%
Expenses	<u>1,396</u>	<u>1,572</u>
Adjusted EBITDA	<u><u>\$ (181)</u></u>	<u><u>\$ (141)</u></u>
By Segment:		
Kmart	\$ (63)	\$ (61)
Sears Domestic	<u>(118)</u>	<u>(80)</u>
	<u><u>\$ (181)</u></u>	<u><u>\$ (141)</u></u>

Q1 2016

Adjusted Segment Results

<i>millions</i>	Quarter Ended					
	Kmart		Sears Domestic		Sears Holdings	
	2016	2015	2016	2015	2016	2015
Revenue	\$ 2,139	\$ 2,356	\$ 3,255	\$ 3,526	\$ 5,394	\$ 5,882
Gross margin dollars	451	523	764	908	1,215	1,431
Gross margin rate	21.1%	22.2%	23.5%	25.8%	22.5%	24.3%
Selling and administrative	514	584	882	988	1,396	1,572
<i>Selling and administrative expense as a percentage of total revenues</i>	24.0%	24.8%	27.1%	28.0%	25.9%	26.7%
Adjusted EBITDA	(63)	(61)	(118)	(80)	(181)	(141)
Depreciation and amortization	(19)	(20)	(76)	(102)	(95)	(122)
Gain on sales of assets	46	18	15	89	61	107
Special items:						
Closed store reserve and severance	(73)	(36)	(14)	(3)	(87)	(39)
Pension expense	-	-	(72)	(57)	(72)	(57)
Other ⁽¹⁾	(8)	(8)	-	82	(8)	74
Amortization of deferred Seritage gain	4	-	18	-	22	-
Impairment charges	(3)	-	(5)	-	(8)	-
Operating loss	\$ (116)	\$ (107)	\$ (252)	\$ (71)	\$ (368)	\$ (178)

⁽¹⁾ First Quarter 2016 consisted of expenses associated with legal matters, while First Quarter 2015 consisted of one-time credits from vendors, expenses associated with legal matters, transaction costs associated with strategic initiatives and other expenses.

Reconciliation to GAAP

Sears Holdings Corporation Adjusted Earnings per Share

Amounts are Preliminary and Subject to Change

	13 Weeks Ended April 30, 2016									
	GAAP	Adjustments							Tax Matters	As Adjusted
		Pension Expense	Closed Store Reserve, Store Impairments and Severance	Gain on Sales of Assets	Mark-to-Market Adjustments	Amortization of Deferred Seritage Gain	Other ⁽¹⁾			
<i>millions, except per share data</i>										
Gross margin impact	\$ 1,177	\$ —	\$ 60	\$ —	\$ —	\$ (22)	\$ —	\$ —	\$ 1,215	
Selling and administrative impact	1,503	(72)	(27)	—	—	—	(8)	—	1,396	
Depreciation and amortization impact	95	—	(4)	—	—	—	—	—	91	
Impairment charges impact	8	—	(8)	—	—	—	—	—	—	
Gain on sales of assets impact	(61)	—	—	26	—	—	—	—	(35)	
Operating loss impact	(368)	72	99	(26)	—	(22)	8	—	(237)	
Interest and investment loss impact	(4)	—	—	—	6	—	—	—	2	
Income tax expense impact	(15)	(27)	(37)	10	(2)	8	(3)	186	120	
After tax and noncontrolling interest impact	(471)	45	62	(16)	4	(14)	5	186	(199)	
Diluted loss per share impact	\$ (4.41)	\$ 0.42	\$ 0.58	\$ (0.15)	\$ 0.04	\$ (0.13)	\$ 0.05	\$ 1.74	\$ (1.86)	

	13 Weeks Ended May 2, 2015								
	GAAP	Adjustments						Tax Matters	As Adjusted
		Pension Expense	Closed Store Reserve, Store Impairments and Severance	Gain on Sales of Assets	Mark-to-Market Adjustments	Other ⁽¹⁾			
<i>millions, except per share data</i>									
Gross margin impact	\$ 1,518	\$ —	\$ 6	\$ —	\$ —	\$ (93)	\$ —	\$ 1,431	
Selling and administrative impact	1,681	(57)	(33)	—	—	(19)	—	1,572	
Depreciation and amortization impact	122	—	—	—	—	—	—	122	
Gain on sales of assets impact	(107)	—	—	96	—	—	—	(11)	
Operating loss impact	(178)	57	39	(96)	—	(74)	—	(252)	
Interest and investment loss impact	(18)	—	—	—	19	—	—	1	
Income tax expense impact	(18)	(21)	(15)	36	(7)	28	124	127	
After tax and noncontrolling interest impact	(303)	36	24	(60)	12	(46)	124	(213)	
Diluted loss per share impact	\$ (2.85)	\$ 0.34	\$ 0.23	\$ (0.56)	\$ 0.11	\$ (0.43)	\$ 1.16	\$ (2.00)	

⁽¹⁾ First Quarter 2016 consisted of expenses associated with legal matters, while First Quarter 2015 consisted of one-time credits from vendors, expenses associated with legal matters, transaction costs associated with strategic initiatives and other expenses.

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